



Neutral outlook on property sector

Certain segments expected to outperform in current market condition

KUALA LUMPUR: Amlinvest Research is maintaining its "neutral" view on the property sector as the outlook remains challenging in the next 12 months.

It said while most developers have achieved their new sales target, the numbers were lower year-on-year whereby sales for the first nine months of 2019 were lower by 10% to 15% as compared with the previous year.

"We do not expect surprises in earnings for the next 12 months. However, there is still some space for growth. We expect certain segments to outperform in the current market condition."

"We believe developers with overseas exposures will do better in the medium term, especially in China and Singapore. Sunway Bhd and IOI Properties Group Bhd are well positioned in this area and their property launches have been generally well received both locally and overseas," it said.

Amlinvest Research said similar to 2019, it expected there would be some landbanking activities, especially in small pocket of lands which have good locations such as close proximity to KL city centre, major expressways and the MRT/LRT.

"We believe high-rise development around these areas provide good connectivity hence convenience for home buyers. For example, Sunway and Mah Sing Group Bhd have done their landbanking in 2019 applying such strategy.



Foreign interests: People visiting a property fair in Penang. Malaysian properties have been getting interest from Hong Kong residents due to protests in the region which began about six months ago.

"We expect the affordable segment to perform well, driven by resilient demand, especially from young professionals and families due to continued urbanisation. This is well reflected by the move by the majority of local property developers to focus on this segment," it said.

The research house said Malaysian properties have been getting interest from Hong Kong residents due to protests in the region which began about six months ago.

Malaysia is a good choice for Hong Kong people due to afford-

ability, the Chinese/Cantonese culture, and English proficiency.

Moreover, the lowering the foreign ownership threshold for condominiums and apartments to RM600,000 will increase the demand for local properties among foreigners.

"Companies such as Mah Sing, SP Setia Bhd, Malaysian Resources Corp Bhd, Ecoworld and Titiyaya Land Bhd have many projects still in their early stages, hence we do not expect strong revenue recognition in the next 12 months.

"We expect earnings to grow by a

mere 4%-5% for financial year 2020, given the current sales figure, progress of construction and timing of revenue recognition, translating into a price/earnings ratio of 20 times," it said.

The research house maintained its "neutral" view on the sector as it does not anticipate earnings surprises in the short to medium term.

Its top picks for the sector are Sunway (buy, fair value: RM1.97) given that its local and overseas property launches have been generally well received due to good locations, and its diversified income

base; and IOI Properties (buy, fair value: RM1.73) which is banking on a strong contribution from its property development projects, particularly in China and Singapore.

"We expect real estate investment trusts (REITs) to remain stable in the short to medium term, especially shopping malls. Pavilion REIT (hold, fair value: RM1.93) and Sunway REIT (buy, fair value: RM2.16) are still enjoying high occupancy rates in their shopping malls."

"We believe the high occupancy rates are also due to strong management and brand names of the REITs. In addition to shopping complexes becoming one-stop centres for the Malaysian lifestyle providing F&B and entertainment options," it said.

The research house said it liked YTL REIT (buy, fair value: RM1.56) due to it being a hospitality REIT with exposure in the Australian market that continued to grow and at the same time has master leases on properties in both Malaysia and Japan that provided steady incomes.

"We may upgrade the property sector to overweight if the banks are to ease lending policies on properties or consumer sentiment is to improve significantly."

"We may downgrade our 'neutral' stance for the property sector to 'underweight' if the banks are to tighten further their lending policies on properties or consumer sentiment is to deteriorate further," Amlinvest Research said.